Internal Control Plan

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This document presents the Internal Control Plan for the Missouri Department of Higher Education (MDHE). The purpose of the plan is to list the steps taken by MDHE employees to ensure all assets and information are properly safeguarded against improper use. This plan is reviewed annually to ensure that internal and system controls are kept up to date and in accord with state and federal laws and regulations.

This plan incorporates the guidelines and rules set forth in the following documents, which are available for review upon request:

- MDHE Personnel Policies
- MDHE Accounting Procedures
- MDHE Human Resource Procedures
- MDHE ATOM Procedures
- MDHE Fiscal Analysis Procedures
- MDHE Information Technology Acceptable Use Policy

Over the past several years, MDHE has implemented policies and procedures that minimize risk and make better use of staff time. Staff continues to use best practices to centralize transactions and to make operations run more efficiently and effectively.

MDHE staff indentified all business processes to aid in the development of this plan. Business processes are defined as any transactions or activities performed that have a fiscal impact on a program, fund, appropriation, or bank account. These processes were then examined for weaknesses in internal control and to ensure that all assets are safeguarded. In addition, MDHE staff reviewed information systems (both internal and external) that help establish a sound internal control plan. Finally, the MDHE's plan to formally monitor and evaluate the adequacy of this plan was disseminated to and approved by senior staff.

This plan consists of the following five components:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

INTRODUCTION

This document presents the internal control plan for the MDHE. The internal control plan addresses the establishment and implementation of proper controls for the fiscal operations of the MDHE and how mechanisms have been established to safeguard the organization's assets and ensure proper use of resources. The format employed for this document follows the guidelines recommended by the Division of Accounting of the Office of Administration (OA), as outlined in the report titled <u>Instructions for the Preparation of an Agency Internal Control Plan, April 1999</u>.

The MDHE's approach to establishing and maintaining proper internal controls parallels the recommendations from OA and state and federal regulations. The MDHE has assessed known risks for business processes, developed procedures to minimize those risks, and developed a plan that will formally monitor the internal control plan. This plan will be modified based upon any findings in subsequent reviews.

Fiscal Objectives

Most fiscal transactions are centralized and are the responsibility of the MDHE's Administration Section, including the following activities:

- Establishing fiscal polices and procedures in compliance with federal and state laws and regulations.
- Providing control of MDHE's accounting activities.
- Making monetary disbursements and deposits with the State Treasurer and Central Trust Bank.
- Maintaining fixed assets and expendable inventories.
- Collecting receivables.

Some activities are decentralized. They include the following:

- Proper coding and control of the Automatic Transfer of Money (ATOM) system, which handles disbursement of student loan funds to financial and higher education institutions. This account is held outside the state treasury.
- Proper coding and control of the state grants and scholarship program.

Internal control provides MDHE's management with reasonable assurances that the department's policies and procedures are implemented and consistently followed. The internal control plan consists of all the methods used to safeguard assets, to promote accuracy and reliability of the department's accounting data and records, to ensure compliance with all state and federal laws and regulations and department polices and procedures, and to promote the operational efficiency of the department.

Internal Control Objectives

To help ensure that the MDHE's fiscal objectives are met, internal controls have been established to provide a structure for accomplishing these objectives. The MDHE's fiscal objectives are:

- Transactions are properly authorized.
- Duties are sufficiently segregated with proper back-up personnel to ensure continuity of business.
- Access to assets is properly safeguarded.
- The internal control plan is reviewed annually to ensure that policies and procedures are being followed.

MDHE's internal fiscal objectives are addressed in this document by providing the following components:

1.) Control Environment – Provides the overall description of the department and the Coordinating Board for Higher Education, including MDHE's mission statement, and a history of the department.
2.) Risk Assessment – Describes the processes in place to identify weaknesses in the department's overall financial management processes, and the organizational structure and its funding to determine if the structure is properly designed to reach desired goals and outcomes.
3.) Control Activities – Includes the elements necessary to provide management with reasonable assurance that policies and procedures are being carried out. The control activities that are relevant are categorized as internal controls that pertain to: performance reviews, information processing, physical control, and segregation of duties.
4.) Information and Communication – Consists of the methods and records established to identify, assemble, analyze, classify, record, and report transactions, and to maintain accountability for the department's assets and liabilities. All systems are periodically tested and information regarding those tests is disseminated among senior staff.
5.) Monitoring – This plan was established to perform periodic reviews of systems, transactions, processes, and programs to ensure proper internal controls are in place and to minimize risk of misuse. This plan provides a means for the department to be proactive in identifying weaknesses rather than reactive.

CONTROL ENVIRONMENT

<u>MDHE History</u>

The Coordinating Board for Higher Education was authorized by an amendment to the Missouri Constitution in 1972 and established by statute in the Omnibus State Reorganization Act of 1974. The Coordinating Board has nine board members, one from each congressional district, who are appointed by the governor and confirmed by the Senate. The term of appointment is six years. No more than five of the nine members may be affiliated with the same political party, and members serve without compensation. As authorized in Section 173.005, RSMo, the Coordinating Board is the head of the MDHE.

The MDHE carries out the goals and administrative responsibilities of the Coordinating Board for the state system of higher education. The state's system of higher education serves more than 416,000 students through 13 public four-year university campuses, 19 public two-year college campuses, 1 public two-year technical college, 25 independent colleges and universities, and 159 proprietary schools.

The department's primary responsibilities include:

- Identification of statewide needs for postsecondary education;

- Statewide planning for postsecondary education (including independent institutions);

- Submission of a unified annual budget request for public higher education to the governor and General Assembly;

- Operation of the Missouri Student Loan Program on behalf of the federal government as a state-designated guarantee agency;

- Working collaboratively with the Department of Elementary and Secondary Education and the Department of Economic Development on P-20 initiatives**;**

- Setting policy for and administering state and federal student financial assistance programs;

- Establishing guidelines to promote student transfer among postsecondary institutions**;**

- Approving new degree programs offered by public colleges and universities;

- Evaluating student and institutional performance;

- Reviewing institutional missions;

- Administering the Proprietary School Certification Program; and

- Other duties as assigned by state law

The department processed over $262 million in payments to students during fiscal year 2007 by disbursing loans, grants, and scholarships. In addition, the MDHE conducts outreach activities to improve consumer information about opportunities for post-secondary education and student financial assistance in Missouri. The MDHE also helps students avoid defaulting on their educational loans and accumulating credit card debt.

The MDHE's internal control environment is dictated by official state policies and procedures and state and federal laws and regulations. The MDHE adheres to statewide procedures for budgeting, human resources, procurement, receipting, expenditures, and general accounting. The MDHE uses the online transaction capabilities of the Statewide Advantage for Missouri II (SAM II) automated accounting system. The MDHE has established a number of workflow rules and approval controls to ensure all transactions have proper security controls in place.

The control environment is the foundation of all other components of the internal control plan, providing discipline and structure. The MDHE's control environment components include:

- **Management Philosophy**. Management's commitment to provide adequate control through the design, installation, and maintenance of a system of internal controls.
- **Organizational Structure**. The organizational structure provides the framework for the division of authority, responsibility, and duties, while also allowing for proper section backup for continuity of operations.
- **Human Resource Activities**. Ensures adequate policies and procedures are in place to ensure that staff is competent, continually trained in field, compliant with a standard code of conduct, and understands the importance of their duties and how they relate to the overall goals of the department.
- **Internal Control Reviews**. Periodically, the MDHE's Administration Section reviews internal controls, program expenditures, and financial records. Any findings will result in a modification of this plan as needed.

The MDHE's management staff is committed to providing customers, employees, government officials, and the general public with excellent customer service. The maintenance of sound fiscal controls to ensure the delivery of services to our customers is a continual review and improvement process.

VISION:
MDHE's vision is to be a recognized national leader in higher education quality and performance excellence. The department helps Missourians "learn smart" by taking advantage of postsecondary education and encourage investments in high-quality education. The department envisions a coordinated, value-driven system of education of public, independent, and private colleges and universities and career schools that provides access to high quality educational environments in order to enrich the intellectual, professional and personal capabilities of Missourians, thereby advancing their civic, economic, and social contributions to Missouri communities. In addition, the MDHE is working to enact an accountability system that will make the state's higher education system more transparent to Missourians.

MISSION:
The MDHE's mission is to deliver an affordable, quality, coordinated postsecondary education system and increase successful participation, benefiting all Missourians.

VALUES:
The MDHE values a customer focus in the design and delivery of programs and services; prioritizing departmental activities and services based on customer needs; and quality improvements in higher education administration, institutions, and programs.

RISK ASSESSMENT

Risk assessment is the process of identifying risks that could negatively impact the MDHE's fiscal performance. This section addresses the department's risk assessment process. This assessment is an on-going exercise for senior staff to determine if business processes are being completed in the most efficient and effective manner while also abiding by state and federal laws and regulations. During the risk assessment process, some of MDHE's senior staff performed the following tasks:

- Identified MDHE's primary responsibilities and functions as they relate to internal control.
- Identified transactions, cycles, and systems used to manage financial information that is vital to the accomplishment of the department's objectives.
- Identified obstacles and risks to the department's financial processing and information systems.

During the assessment, the MDHE combined activities relating to fiscal management into business processes. These processes have been defined and assessed a risk factor due to the potential for fraud, abuse, or mismanagement.

Business Processes:

Policy and Planning
Reporting
Budgeting
Human Resource Management
Payroll
Procurement
Disbursement
Receipt
Fixed Asset Management
General Accounting

The key factors determining the level of risk include: volume of transactions, current procedures, authorization process, and prior occurrence of problems.

Business Process	Description	Possible Risk	Process to Minimize Risk
Policy and Planning	MDHE's policy and planning process includes defining the organization's vision, mission and values, preparing and maintaining the Coordinated Plan for Higher Education, and establishing sound fiscal policies and procedures.	The lack of or the misunderstanding of the organization's vision, mission and values, and without sound fiscal policies and procedures could result in insufficient controls to safeguard MDHE assets.	Ensure that all fiscal policies and procedures are kept up to date and in conformance with state and federal rules and regulations and that these policies are disseminated among staff and understood in their entirety.
Financial Reporting	Includes the periodic reporting regarding management and operational reports, statements of revenues and expenditures and the agency's financial statements.	The inability to create, distribute and validate accurate and timely financial and management reports could result in misleading financial data and never knowing or misrepresentation of the financial position of the agency at any given time.	Written procedures established and disseminated to senior staff outlining the schedule of periodic reports regarding revenues and expenditures and the timely review of transactions to ensure accuracy and completeness of reports.
Budgeting	Budgeting is the process that determines the level of funding necessary to carry out the objectives in the agency's Coordinated Plan.	The lack of planning could result in the agency no longer operating as an on-going concern. Budget review is necessary to compare the amount budgeted to actual expenditures, review any variances, and make adjustments as needed.	Senior staff continues to adequately plan for the future as an on-going business concern. Proper planning results in more efficiencies and a better government.
Human Resource Management	The administration of the human resources includes ensuring that qualified and well trained staff are hired and a proper continual training program in place to keep staff adequately trained in field	The risk of not running background checks could result in unqualified staff, staff with a delinquent student loans or staff with a criminal background therefore posing a risk for the agency.	The agency developed a background check policy that went into affect July 1, 2005. The policy requires background checks on all persons considered for employment through the Missouri State Highway Patrol and annual checks on all employees. All prospective employees are checked for defaulted student loans through the Defaulted Loan Processing.

Business Process	Description	Possible Risk	Process to Minimize Risk
Payroll	SAM II procedures are followed when setting up payroll, entering in leave and other personnel related activities.	The potential for mistakes is great during this process. Without personnel policies and procedures in place, the agency runs the risk of fraud, entry errors, and lack of oversight of entries.	MDHE drafted procedures to ensure payroll information is accurate and reconciliation is completed after each pay cycle. The HR Specialist is responsible for reconciliation; the Accountant and Director of Administration provide continual oversight to ensure information is accurate and corrections are made timely to reduce payroll errors. Without continual oversight, information is not reviewed or corrected. Also, tighter controls have been put in place to keep matters confidential.
Procurement	Procurement is the process by which goods and services are purchased to assist the agency in reaching its goals?	The possibility of unauthorized transactions can occur either intentionally or unintentionally. To minimize risks, department procedures regarding prior authorization were adopted in September of 2001 for all expenditures. The immediate supervisor can approve expenditures up to and including $499. Approval must be granted by the Director of Administration for items $500 and higher, for all agency provided food expenditures, and out-of-state travel.	State and federal rules and regulations are followed to accurately procure goods and services according to the intent in which money was appropriated and or awarded. The procurement process includes prior authorization of any expenditure, without prior approval the employee will be held personally liable. SAM II procedures are followed for all transactions. Reviews on SAM II security are conducted monthly and security is changed as needed.

Business Process	Description	Possible Risk	Process to Minimize Risk
Disbursement	The MDHE disbursed over $14.2 million in operating expenditures, $41.5 million in grants and scholarships, $219.6 million in student loans and $136.2 million in community college payments during FY2007.	Due to the number of transactions processed, the greater the risk is for fraudulent payments or other unauthorized transactions. This also creates a greater risk for legitimate errors that could have a negative financial impact if not corrected. Well qualified staff is a must for this position, without it the agency would not have good controls in place.	State and federal rules and regulations are followed to accurately procure goods and services according to the intent in which money was appropriated and or awarded. The procurement process includes prior authorization of any expenditure, without prior approval the employee will be held personally liable. A monthly review of expenditures by appropriation and a review of revenue sources is completed to determine if transactions have been recorded properly.
Receipt	The MDHE has a centralized receipt function for its financial operations. Adequate procedures reduce risks by centralizing receipt, safeguarding checks, and ensuring the deposit within 24 hours of receipt. Reconciliations are completed on a monthly basis by each corresponding group to determine accuracy of entries. The reconciliation is between group records and reports generated from SAM II.	It has come to Administration's attention that not all checks are being deposited within 24 hours and, in some cases checks have been held for 30 days. This is in violation of the adopted policy. By allowing groups to continue to hold checks the agency is foregoing interest earnings and creating a greater risk for the check to be lost, stolen or forgotten. Recommendations could include the group develop additional backup staff and provide adequate training to ensure continuity of business.	An annual review will be conducted at the end of each fiscal year to ensure all payment procedures are performed in accordance with all applicable, laws, rules, regulations, OA/SAM II polices and MDHE policies and procedures. In addition to testing for proper segregation of duties in receiving, depositing, approving and reconciling of cash receipts.
Fixed Asset Management	Procedures include proper segregation duties and following all state rules and regulations and SAM II procedures. The segregation of duties include the separation of ordering, receiving, paying, entering information on fixed asset system and performing an annual physical inventory by different employees.	Without the proper segregation of duties and proper management controls over fixed assets, the risk of theft of equipment and proper listing of equipment and its location is greatly increased.	Procedures have been established in accordance with all applicable state and federal rules and regulations in addition to being compliant with OA/SAM II procedures. These procedures include proper segregation of duties for asset management and a bi-annual fixed asset reconciliation between the subsystem and General Ledger system.

Business Process	Description	Possible Risk	Process to Minimize Risk
General Accounting	Procedures have been established in accordance with all applicable state and federal rules and regulations in addition to being compliant with OA/SAM ll procedures.	The primary risk involves the inappropriate processing of journal vouchers that could result in funds deposited where one or more employees have access to process inappropriate disbursements.	MDHE follows the procedures outlined by SAM ll for the processing of journal vouchers. MDHE maintains a log of all journal vouchers including a copy of the transaction being reversed attached to the JV document. All JV documents require approval thus minimizing the risk of inappropriate transactions. OA provides final approval.

Control Activities

This section summarizes the processes by which all financial and payroll transactions are completed at the MDHE. These processes ensure all transactions are completed, reviewed, and corrected, if needed, in a timely manner. All transactions are prepared and authorized in accordance with SAM II Financial Policies and Procedures, SAM II Human Resources/Payroll Policies and Procedures, and MDHE Policies and Procedures.

During fiscal year 2002 through 2004, the department established and implemented revised procedures and changed processes to provide for tighter controls in safeguarding MDHE assets. Those include centralizing all receivables, developing a vendor file system, performing internal reviews, developing written procedures for sections performing financial and payroll functions, and keeping separate ledgers on all programs operating from the federal fund.   MDHE processes and procedures will continually be reviewed and updated as needed to adhere to state and federal laws and regulations.

FINANCIAL PROCESSING PROCEDURES

The primary objectives of the MDHE's accounting office are to scrutinize all invoices; to ensure that all purchases have received prior approval, that invoices have proper backup documentation, and that all checks are deposited within 24 hours of receipt; and to perform operational reviews as needed.

The MDHE's Accountant reviews all invoices for accuracy. Prior to processing invoices for payment, the Accountant receives approval for payment on the invoice from the appropriate section director. The section director sends their approval, along with a copy of the purchase requisition, to the Accountant so that she may pay the invoice.

Several documents are processed to pay invoices. The MDHE primarily uses the following:

- PVE – Payment Expense Vouchers -- used to process expense accounts
- PVS – Special Payment Voucher – used to process claims paid, federal distributions, and state aid to community colleges
- PVQ – Quick Payment Voucher – used to process payments on invoices where purchase orders are not required
- RE – Receivable documents – are processed when goods and or invoice for services are received
- P1 – Vendor Payment Voucher – purchase orders are associated with these documents
- CR – Cash Receipt – used to deposit monies into the State Treasury

Purchase Requests
The process used in submitting the above listed documents include prior approval from section supervisors. Section supervisors approve all purchase requisitions and out-of-state travel prior to forwarding the request to Administration. Additional approval for purchases $500 and higher,

all department-provided food requests, and out-of-state travel require approval from the Director of Administration.

Invoices:
All section supervisors must approve various invoices for payment. The invoice is then routed to the Accountant for review and to process for payment. The department has switched from manually assigning document numbers to letting the system assign document numbers to invoices. The Accountant enters invoice information into SAM II for processing. All processed documentation is forwarded to the Director of Administration for review and final approval in SAM II. The documents the department has final approval on are: PVE, PVS, PVQ, RE, PI, and CR. Once approved in SAM II, copies are kept at the MDHE office, the check number and/or EFT date is written on the invoice copy, and the documents are filed. All checks are mailed along with a copy of the invoice by the MDHE's Administration Section's Office Support Services staff.

PAYROLL PROCESSING PROCEDURES

Entering of Deduction Information
Beginning January 1, 2008, the Statewide Employee Benefit Enrollment System (SEBES) became mandatory for benefit enrollment. MDHE enters the necessary document in SAM II HR on the new employee and also enters demographic information in SEBES on the first date of employment. This generates a password and that is automatically sent to the new employee. Once the password is received, the new employee has 30 days from date of hire to enroll for benefits through SEBES. New hires, salary changes, probation letters, and leave without pay must be approved by the Commissioner. All necessary forms for payroll changes are available in the MDHE's Administrative Section's Human Resources Section. Most transactions that affect an employee's salary require on-line approval from the MDHE's Director of Administration.

MCHCP and MOSERS require employees to make additions, deletions, and changes on their on-line system. MDHE no longer maintains employee insurance information. Copies of all payroll transactions are kept in Human Resources. It is the Human Resource Specialist's responsibility to ensure payroll is accurate by reviewing the payroll register report, payroll accounting adjustment audit report (if needed), and other specialized reports as needed, as each pay cycle is run. This gives the Human Resource Specialist enough time to correct entries and to ensure that all employees will receive payment on the expected date. After the pay cycle has run, all transactions are reviewed for accuracy. Copies of all payroll transactions are kept in an employee's personnel file. Personnel files that contain confidential information are maintained in cabinets that are locked each evening.

Document Direct (MOBIUS) Reports
After each pay cycle has run, the Human Resource Specialist prints all necessary payroll reports from MOBIUS. The list of all SAM II - Human Resource reports available to departments is available online at: http://www.missouri.gov/mo/samii/hr/mobius/. The MDHE prints the following reports:

- HAA8000 – Leave Balance

- HAA8100 – Leave Liability
- HAR5200 – Payroll Register
- HAR6100 – Paycheck Register
- HAR6200 – Direct Deposit Register
- HAR6300 – Paycheck Control Sheet
- OGW510R1 – Worker's Compensation Reports
- OGW620R1 – Worker's Compensation Transfer Change
- OHB0805 – Year-To-Date Payroll Register
- OHB0816 – Current Earnings Register
- OHB0823 – Allocated Vacant Position
- OHB0877 – SUSE ESMT Audit Trail
- OHB801R1 – Training Tracking
- OHB945R1 – Daily Transaction Load
- OHUB807 – Annual Wage & Tax Report By Agency/Organization
- OHUB811 – Allocated Position Listing
- OHUB821 – T&A Activity by Agency/Organization Accountant I prints this report.
- OHUB831 – Time and Leave Accepted Transaction

The Human Resource Specialist reviews reports as necessary; the Director of Administration reviews all reports on an ad hoc basis. The reports are also used by the state auditors each year to conduct the annual audit of the MDHE is connection with the statewide Single Audit.

Monthly Payroll
As of November 1, 2007, the MDHE requires all full-time MDHE employees to have direct deposit. The department no longer allows full-time employees to receive any type of payment by check. The department also stopped delivering direct deposit advice statements and/or paychecks; all employees may now view payroll information on MOSERS website. The department is compliant with the revised rule regarding payroll.

Check/Direct Deposit Cancellation
If a problem arises with an employee's direct deposit due to an entry error, lack of funds, overpayment, or underpayment, OA's Division of Accounting is notified immediately. For direct deposit cancellations, a Supplemental Check/Check Cancellations Request is completed by Human Resources. This form is available online at http://www.missouri.gov/mo/samii/hr/hrp&p.html. The form must be signed by the Director of Administration. A copy is kept in Human Resources and the original is faxed to OA's Division of Accounting.

Payroll Accounting Adjustments (PACC) for Corrections to Payroll
If incorrect accounting information is used to pay an employee, an incorrect payout of annual leave is entered, or another entry error regarding payroll occurred after the pay cycle has run the error is brought to the Human Resource Specialist's attention for correction. A Payroll Accounting Correction form (PACC) must be completed before the change is entered into the SAM II-Accounting system. PACC corrections must be approved by the Director of

Administration and by OA's Division of Accounting. A copy of the PACC form is kept in Human Resources and a copy is sent electronically to OA for entry and approval. The guidelines for PACC corrections are available online at http://www.missouri.gov/mo/samii/hr/hrp&p.html.

Information and Communication

The MDHE utilizes the SAM II system. The system is used to process all HR and financial transactions. The department processes all grant and scholarship requests through its in-house FAMOUS system. All disbursements of student loan funds are processed through the ATOM (Automatic Transfer of Money) system.

Communication concerning the department's systems, processes, and procedures can be found in various manuals. Those manuals include the MDHE Personnel Policies, MDHE Accounting Procedures, MDHE Human Resource Procedures, MDHE ATOM Procedures, MDHE Fiscal Analysis Procedures, and MDHE Information Technology Acceptable Use Policy. As processes change, information is disseminated through e-mails, formal memos, and verbal communication until the applicable manual can be revised.

Through constant communication, MDHE ensures that its assets are properly safeguarded.

Monitoring

The MDHE's Director of Administration is primarily responsible for ensuring the adequacy of the MDHE's internal controls for fiscal operations. Procedures for establishing and monitoring management controls, reporting on the adequacy of controls, and improvement of controls and corrections action plans will be incorporated into MDHE policies and procedures. These policies and procedures will follow guidelines set forth in MDHE's Personnel Policies manual. In general, the internal control review process will encompass reviews completed on an annual basis comparing expenditures, budget, and prior year amounts. Ad hoc reviews will include performance reviews on vendors; compliance reviews on various contracts; and object code, activity code, and reporting category review to determine accurate coding. Reviews will also include looking at processes and correcting any weaknesses identified in the reviews.

The State Auditor's Office performs annual audits of the department in connection with the statewide Single Audit. These audits address internal control issues. Any findings are disseminated among senior staff and acted upon by the appropriate sections. Through this process, MDHE minimizes possible threats to the internal control structure and is proactive in implementing corrective action plans.

Through the ongoing monitoring of MDHE's internal control plan, the department can provide reasonable assurances as to the soundness, accuracy, and reliability of its financial information.